



**Harry Gwala District Municipality and its Municipal Entity  
(Registration number DC 43)  
Annual financial statements  
for the year ended 30 June 2020**

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## General Information

---

### Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)

### Nature of business and principal activities

The provision of services (water and sanitation) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

### Council

Executive Mayor

ZD Nxumalo

Deputy Mayor

NH Maphasa-Duma

Speaker

TN Jojozi

Member of the Executive Committee

BP Nzimande

Member of the Executive Committee

N Mavuka

Member of the Executive Committee

LA Zondi

Chief Whip

WB Dlamini

Councillors

NW Dladla

SS Mavuma

NW Dladla

TG Soni

V Xotongo

VW Zaza

ZS Nyide

ZC Khumalo

ZR Tshazi

SJ Phakathi

SN Madziba

BC Mncwabe

SV Zulu

B Sibeni

BZ Magaqa

BL Marnce

ZP Gcume

BC Mncwabe

L Nzimande

MSD Mdunge

KM Mkhize

### Grading of local authority

Grade 4

### Chief Finance Officer (CFO)

Mr M Mkatu

### Accounting Officer

Mrs AN Dlamini

### Registered office

Harry Gwala District Municipality Main office  
40 Main street  
Ixopo  
3276

### Business address

40 Main street  
Ixopo  
3276

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## General Information

---

<b>Postal address</b>	Private Bag X501 Ixopo 3276
<b>Controlling entity</b>	Harry Gwala District Municipality
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General
<b>Level of assurance</b>	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
<b>Preparer</b>	The annual financial statements were internally compiled by: Deputy Chief Financial Officer
<b>Telephone number</b>	039 834 8700
<b>Website</b>	<a href="http://www.harrygwaladm.gov.za/">http://www.harrygwaladm.gov.za/</a>
<b>Harry Gwala Development Agency board members</b>	Mr P Dittrich - Chairperson Mr DE Sithole Mr N Khanyile Ms CS Nqoko Ms K Chiba - resigned in June 2020

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Index

---

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 12
Accounting Policies	13 - 37
Notes to the Annual Financial Statements	38 - 82

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Responsibilities and Approval

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the economic entity's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the economic entity's external auditors.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2020 and were signed on its behalf by:

---

**Mrs AN Dlamini**  
**Municipal Manager**

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2020	2019 Restated*	2020	2019 Restated*
<b>Assets</b>					
Current Assets					
Inventories	3	267 013	247 710	267 013	247 710
Receivables from exchange transactions	4	-	5 052 115	-	-
Receivables from non-exchange transactions	5	3 878 721	6 658 497	3 878 721	6 658 497
VAT receivable	6	6 764 717	11 698 132	6 757 009	11 145 580
Consumer debtors	7	31 028 737	26 933 367	31 028 737	26 933 367
Cash and cash equivalents	8	48 731 048	71 586 809	40 670 866	58 362 814
		<b>90 670 236</b>	<b>122 176 630</b>	<b>82 602 346</b>	<b>103 347 968</b>
Non-Current Assets					
Property, plant and equipment	9	2 361 553 463	2 196 723 297	2 340 494 072	2 174 636 590
Intangible assets	10	2 154 177	2 435 173	875 303	1 197 027
Investments in controlled entities	11	-	-	100	100
		<b>2 363 707 640</b>	<b>2 199 158 470</b>	<b>2 341 369 475</b>	<b>2 175 833 717</b>
<b>Total Assets</b>		<b>2 454 377 876</b>	<b>2 321 335 100</b>	<b>2 423 971 821</b>	<b>2 279 181 685</b>
<b>Liabilities</b>					
Current Liabilities					
Borrowings	12	4 555 057	4 101 623	4 555 057	4 101 623
Finance lease obligation	13	5 455 092	8 540 813	5 348 935	8 426 135
Payables from exchange transactions	14	101 503 238	96 932 236	100 899 482	95 871 418
Consumer deposits	15	1 863 257	1 768 018	1 863 257	1 768 018
Employee benefit obligation	16	770 000	318 714	770 000	318 714
Unspent conditional grants and receipts	17	20 251 021	56 694 251	15 486 481	44 396 884
		<b>134 397 665</b>	<b>168 355 655</b>	<b>128 923 212</b>	<b>154 882 792</b>
Non-Current Liabilities					
Borrowings	12	-	4 555 057	-	4 555 057
Finance lease obligation	13	4 980 676	9 056 912	4 904 225	8 985 901
Employee benefit obligation	16	17 708 999	18 621 498	17 708 999	18 621 498
Long term payable from non exchange transactions	18	11 661 265	11 661 265	11 661 265	11 661 265
Other financial liability	19	5 074 131	5 317 297	-	-
		<b>39 425 071</b>	<b>49 212 029</b>	<b>34 274 489</b>	<b>43 823 721</b>
<b>Total Liabilities</b>		<b>173 822 736</b>	<b>217 567 684</b>	<b>163 197 701</b>	<b>198 706 513</b>
<b>Net Assets</b>		<b>2 280 555 140</b>	<b>2 103 767 416</b>	<b>2 260 774 120</b>	<b>2 080 475 172</b>
Accumulated surplus		2 280 555 140	2 103 767 416	2 260 774 120	2 080 475 172

\* See Note 43

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2020	2019 Restated*	2020	2019 Restated*
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Sale of goods		-	5 052 115	-	-
Service charges	20	70 462 645	58 420 643	70 462 645	58 420 643
Other income	21	1 353 425	784 865	1 353 425	743 465
Interest received	22	18 987 942	19 965 337	18 828 904	19 757 937
<b>Total revenue from exchange transactions</b>		<b>90 804 012</b>	<b>84 222 960</b>	<b>90 644 974</b>	<b>78 922 045</b>
<b>Revenue from non-exchange transactions</b>					
<b>Transfer revenue</b>					
Government grants & subsidies	23	643 187 263	661 444 867	643 187 263	658 444 867
Public contributions and donations	24	5 863 241	13 424 405	5 863 241	13 424 405
<b>Total revenue from non-exchange transactions</b>		<b>649 050 504</b>	<b>674 869 272</b>	<b>649 050 504</b>	<b>671 869 272</b>
<b>Total revenue</b>	25	<b>739 854 516</b>	<b>759 092 232</b>	<b>739 695 478</b>	<b>750 791 317</b>
<b>Expenditure</b>					
Bulk purchases	26	(22 832 763)	(17 975 968)	(22 832 763)	(17 975 968)
Contracted services	27	(143 243 657)	(143 387 613)	(142 268 801)	(142 729 733)
Debt Impairment	28	(43 060 458)	(19 110 917)	(43 060 458)	(19 110 917)
Depreciation and amortisation	29	(72 144 451)	(68 089 575)	(70 918 931)	(66 993 428)
Employee related costs	30	(204 113 467)	(190 694 567)	(194 229 571)	(181 161 151)
Finance costs	31	(4 296 800)	(3 765 200)	(4 283 737)	(3 752 248)
Inventory consumed	32	(5 399 724)	(31 005 899)	(5 399 724)	(31 005 899)
Lease rentals on operating lease	33	(57 613)	(46 628)	-	-
Operational costs	34	(61 309 691)	(60 962 305)	(55 850 240)	(50 004 083)
Remuneration of councillors	35	(7 701 853)	(6 952 424)	(7 701 853)	(6 952 424)
Transfer payments	36	-	-	(14 000 000)	(14 000 000)
<b>Total expenditure</b>		<b>(564 160 477)</b>	<b>(541 991 096)</b>	<b>(560 546 078)</b>	<b>(533 685 851)</b>
<b>Operating surplus</b>		<b>175 694 039</b>	<b>217 101 136</b>	<b>179 149 400</b>	<b>217 105 466</b>
Loss on disposal of assets		(1 708 544)	(8 948 027)	(1 652 682)	(8 948 027)
Actuarial gains/losses	16	3 828 225	7 466 339	3 828 225	7 466 339
Impairment loss	37	(1 025 548)	(2 750 050)	(1 025 548)	(2 750 050)
		<b>1 094 133</b>	<b>(4 231 738)</b>	<b>1 149 995</b>	<b>(4 231 738)</b>
<b>Surplus for the year</b>		<b>176 788 172</b>	<b>212 869 398</b>	<b>180 299 395</b>	<b>212 873 728</b>

\* See Note 43

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Economic entity</b>		
<b>Balance at 01 July 2018</b>	<b>1 890 898 018</b>	<b>1 890 898 018</b>
Changes in net assets		
Surplus for the year	212 869 398	212 869 398
Total changes	212 869 398	212 869 398
<b>Restated* Balance at 01 July 2019</b>	<b>2 103 766 968</b>	<b>2 103 766 968</b>
Changes in net assets		
Surplus for the year	176 788 172	176 788 172
Total changes	176 788 172	176 788 172
<b>Balance at 30 June 2020</b>	<b>2 280 555 140</b>	<b>2 280 555 140</b>
<b>Controlling entity</b>		
<b>Balance at 01 July 2018</b>	<b>1 867 601 444</b>	<b>1 867 601 444</b>
Changes in net assets		
Surplus for the year	212 873 728	212 873 728
Total changes	212 873 728	212 873 728
<b>Restated* Balance at 01 July 2019</b>	<b>2 080 474 725</b>	<b>2 080 474 725</b>
Changes in net assets		
Surplus for the year	180 299 395	180 299 395
Total changes	180 299 395	180 299 395
<b>Balance at 30 June 2020</b>	<b>2 260 774 120</b>	<b>2 260 774 120</b>

\* See Note 43



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2020	2019 Restated*	2020	2019 Restated*
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Water, sanitation and other receipts		45 124 580	44 726 641	40 072 465	44 595 527
Grants		606 744 033	642 320 964	614 276 860	641 826 131
Interest income		6 355 495	10 046 428	6 196 457	9 839 028
		658 224 108	697 094 033	660 545 782	696 260 686
<b>Payments</b>					
Employee costs		(208 448 308)	(192 280 918)	(198 564 412)	(182 497 514)
Suppliers		(223 255 440)	(273 686 735)	(230 851 300)	(280 824 161)
Finance costs		(4 296 800)	(3 765 200)	(4 283 737)	(3 752 248)
		(436 000 548)	(469 732 853)	(433 699 449)	(467 073 923)
<b>Net cash flows from operating activities</b>	39	<b>222 223 560</b>	<b>227 361 180</b>	<b>226 846 333</b>	<b>229 186 763</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	9	(233 162 114)	(256 894 466)	(233 043 490)	(256 582 632)
Proceeds from sale of property, plant and equipment	9	1 061 620	-	1 061 620	-
Purchase of other intangible assets	10	(176 169)	(193 140)	-	-
<b>Net cash flows from investing activities</b>		<b>(232 276 663)</b>	<b>(257 087 606)</b>	<b>(231 981 870)</b>	<b>(256 582 632)</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		(4 101 623)	(6 159 439)	(4 101 623)	(6 159 439)
Movement in long term payable from non exchange transactions		-	731 037	-	731 037
Movement in other financial liability		(243 166)	-	-	-
Finance lease payments		(8 457 869)	(5 594 033)	(8 454 788)	(5 774 946)
<b>Net cash flows from financing activities</b>		<b>(12 802 658)</b>	<b>(11 022 435)</b>	<b>(12 556 411)</b>	<b>(11 203 348)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(22 855 761)</b>	<b>(40 748 861)</b>	<b>(17 691 948)</b>	<b>(38 599 217)</b>
Cash and cash equivalents at the beginning of the year		71 586 809	112 335 670	58 362 814	96 962 031
<b>Cash and cash equivalents at the end of the year</b>	8	<b>48 731 048</b>	<b>71 586 809</b>	<b>40 670 866</b>	<b>58 362 814</b>

\* See Note 43

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note
Figures in Rand						
<b>Economic entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	88 392 069	(21 326 819)	<b>67 065 250</b>	70 462 645	<b>3 397 395</b>	55
Other income	781 415	7 713 426	<b>8 494 841</b>	1 353 425	<b>(7 141 416)</b>	55
Interest received	20 819 511	(3 904 251)	<b>16 915 260</b>	18 987 942	<b>2 072 682</b>	55
<b>Total revenue from exchange transactions</b>	<b>109 992 995</b>	<b>(17 517 644)</b>	<b>92 475 351</b>	<b>90 804 012</b>	<b>(1 671 339)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	642 242 000	29 597 000	<b>671 839 000</b>	643 187 263	<b>(28 651 737)</b>	55
Public contributions and donations	-	-	-	5 863 241	<b>5 863 241</b>	55
<b>Total revenue from non-exchange transactions</b>	<b>642 242 000</b>	<b>29 597 000</b>	<b>671 839 000</b>	<b>649 050 504</b>	<b>(22 788 496)</b>	
<b>Total revenue</b>	<b>752 234 995</b>	<b>12 079 356</b>	<b>764 314 351</b>	<b>739 854 516</b>	<b>(24 459 835)</b>	
<b>Expenditure</b>						
Employee related costs	(205 725 807)	(433 782)	<b>(206 159 589)</b>	(204 113 467)	<b>2 046 122</b>	55
Remuneration of councillors	(7 574 057)	-	<b>(7 574 057)</b>	(7 701 853)	<b>(127 796)</b>	55
Depreciation and amortisation	(38 192 494)	(42 094 129)	<b>(80 286 623)</b>	(72 144 451)	<b>8 142 172</b>	55
Impairment loss	-	-	-	(1 025 548)	<b>(1 025 548)</b>	55
Finance costs	(3 522 082)	(658 266)	<b>(4 180 348)</b>	(4 296 800)	<b>(116 452)</b>	55
Lease rentals on operating lease	-	-	-	(57 613)	<b>(57 613)</b>	55
Debt Impairment	(25 315 400)	-	<b>(25 315 400)</b>	(43 060 458)	<b>(17 745 058)</b>	55
Bulk purchases	(15 000 000)	(8 134 419)	<b>(23 134 419)</b>	(22 832 763)	<b>301 656</b>	55
Contracted Services	(101 501 547)	(60 340 451)	<b>(161 841 998)</b>	(143 243 657)	<b>18 598 341</b>	55
Inventory consumed	(15 443 359)	6 868 481	<b>(8 574 878)</b>	(5 399 724)	<b>3 175 154</b>	55
Operational costs	(57 324 206)	(2 756 782)	<b>(60 080 988)</b>	(61 309 691)	<b>(1 228 703)</b>	55
<b>Total expenditure</b>	<b>(469 598 952)</b>	<b>(107 549 348)</b>	<b>(577 148 300)</b>	<b>(565 186 025)</b>	<b>11 962 275</b>	
<b>Operating surplus</b>	<b>282 636 043</b>	<b>(95 469 992)</b>	<b>187 166 051</b>	<b>174 668 491</b>	<b>(12 497 560)</b>	
Loss on disposal of assets and liabilities	-	-	-	(1 708 544)	<b>(1 708 544)</b>	55
Actuarial gains/losses	-	-	-	3 828 225	<b>3 828 225</b>	55
	-	-	-	<b>2 119 681</b>	<b>2 119 681</b>	
<b>Surplus before taxation</b>	<b>282 636 043</b>	<b>(95 469 992)</b>	<b>187 166 051</b>	<b>176 788 172</b>	<b>(10 377 879)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>282 636 043</b>	<b>(95 469 992)</b>	<b>187 166 051</b>	<b>176 788 172</b>	<b>(10 377 879)</b>	

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note
--	--------------------	-------------	--------------	--	---	-------------------

Figures in Rand

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Water, sanitation and other receipts	48 513 132	67 119 742	<b>115 632 874</b>	45 124 580	<b>(70 508 294)</b>	55
Grants	642 242 000	(28 000 000)	<b>614 242 000</b>	606 744 033	<b>(7 497 967)</b>	55
Interest income	9 658 489	(2 401 696)	<b>7 256 793</b>	6 355 495	<b>(901 298)</b>	55
	<b>700 413 621</b>	<b>36 718 046</b>	<b>737 131 667</b>	<b>658 224 108</b>	<b>(78 907 559)</b>	

##### Payments

Suppliers and employees	(402 568 976)	(92 796 953)	<b>(495 365 929)</b>	(431 703 748)	<b>63 662 181</b>	55
Finance costs	(3 522 082)	(658 266)	<b>(4 180 348)</b>	(4 296 800)	<b>(116 452)</b>	55
	<b>(406 091 058)</b>	<b>(93 455 219)</b>	<b>(499 546 277)</b>	<b>(436 000 548)</b>	<b>63 545 729</b>	

<b>Net cash flows from operating activities</b>	<b>294 322 563</b>	<b>(56 737 173)</b>	<b>237 585 390</b>	<b>222 223 560</b>	<b>(15 361 830)</b>	
---	--------------------	---------------------	--------------------	--------------------	---------------------	--

Purchase of property, plant and equipment	(282 624 043)	14 633 375	<b>(267 990 668)</b>	(233 162 114)	<b>34 828 554</b>	
Proceeds from sale of property, plant and equipment	-	-	-	1 061 620	<b>1 061 620</b>	
Purchase of other intangible assets	-	-	-	(176 169)	<b>(176 169)</b>	

<b>Net cash flows from investing activities</b>	<b>(282 624 043)</b>	<b>14 633 375</b>	<b>(267 990 668)</b>	<b>(232 276 663)</b>	<b>35 714 005</b>	
---	----------------------	-------------------	----------------------	----------------------	-------------------	--

#### Cash flows from financing activities

Repayment of borrowings	(3 896 000)	(8 631 759)	<b>(12 527 759)</b>	(12 802 658)	<b>(274 899)</b>	
Net increase/(decrease) in cash and cash equivalents	7 802 520	(50 735 557)	<b>(42 933 037)</b>	(22 855 761)	<b>20 077 276</b>	
Cash and cash equivalents at the beginning of the year	112 335 670	(40 742 905)	<b>71 592 765</b>	71 586 809	<b>(5 956)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>120 138 190</b>	<b>(91 478 462)</b>	<b>28 659 728</b>	<b>48 731 048</b>	<b>20 071 320</b>	

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note
Figures in Rand						
<b>Controlling entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	88 392 069	(21 326 819)	<b>67 065 250</b>	70 462 645	<b>3 397 395</b>	55
Other income	766 415	-	<b>766 415</b>	1 353 425	<b>587 010</b>	55
Interest received	20 289 011	(3 553 751)	<b>16 735 260</b>	18 828 904	<b>2 093 644</b>	55
<b>Total revenue from exchange transactions</b>	<b>109 447 495</b>	<b>(24 880 570)</b>	<b>84 566 925</b>	<b>90 644 974</b>	<b>6 078 049</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	641 842 000	15 597 000	<b>657 439 000</b>	643 187 263	<b>(14 251 737)</b>	55
Public contributions and donations	-	-	-	5 863 241	<b>5 863 241</b>	55
<b>Total revenue from non-exchange transactions</b>	<b>641 842 000</b>	<b>15 597 000</b>	<b>657 439 000</b>	<b>649 050 504</b>	<b>(8 388 496)</b>	
<b>Total revenue</b>	<b>751 289 495</b>	<b>(9 283 570)</b>	<b>742 005 925</b>	<b>739 695 478</b>	<b>(2 310 447)</b>	
<b>Expenditure</b>						
Employee related costs	(195 622 807)	(1 433 782)	<b>(197 056 589)</b>	(194 229 571)	<b>2 827 018</b>	55
Remuneration of councillors	(7 574 057)	-	<b>(7 574 057)</b>	(7 701 853)	<b>(127 796)</b>	55
Transfer payments	(14 000 000)	-	<b>(14 000 000)</b>	(14 000 000)	-	55
Depreciation and amortisation	(37 492 494)	(42 217 629)	<b>(79 710 123)</b>	(70 918 931)	<b>8 791 192</b>	55
Impairment loss	-	-	-	(1 025 548)	<b>(1 025 548)</b>	55
Finance costs	(3 510 082)	(658 266)	<b>(4 168 348)</b>	(4 283 737)	<b>(115 389)</b>	55
Debt Impairment	(25 315 400)	-	<b>(25 315 400)</b>	(43 060 458)	<b>(17 745 058)</b>	55
Bulk purchases	(15 000 000)	(8 134 419)	<b>(23 134 419)</b>	(22 832 763)	<b>301 656</b>	55
Contracted Services	(100 121 547)	(60 670 451)	<b>(160 791 998)</b>	(142 268 801)	<b>18 523 197</b>	55
Inventory Consumed	(15 163 359)	6 868 481	<b>(8 294 878)</b>	(5 399 724)	<b>2 895 154</b>	55
Operational costs	(54 090 706)	(2 756 782)	<b>(56 847 488)</b>	(55 850 240)	<b>997 248</b>	
<b>Total expenditure</b>	<b>(467 890 452)</b>	<b>(109 002 848)</b>	<b>(576 893 300)</b>	<b>(561 571 626)</b>	<b>15 321 674</b>	
<b>Operating surplus</b>	<b>283 399 043</b>	<b>(118 286 418)</b>	<b>165 112 625</b>	<b>178 123 852</b>	<b>13 011 227</b>	
Loss on disposal of assets	-	-	-	(1 652 682)	<b>(1 652 682)</b>	55
Actuarial gains/losses	-	-	-	3 828 225	<b>3 828 225</b>	55
	-	-	-	<b>2 175 543</b>	<b>2 175 543</b>	
<b>Surplus before taxation</b>	<b>283 399 043</b>	<b>(118 286 418)</b>	<b>165 112 625</b>	<b>180 299 395</b>	<b>15 186 770</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>283 399 043</b>	<b>(118 286 418)</b>	<b>165 112 625</b>	<b>180 299 395</b>	<b>15 186 770</b>	

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Water, sanitation and other receipts	48 513 132	67 119 742	<b>115 632 874</b>	40 072 465	<b>(75 560 409)</b>	55
Grants	642 242 000	(28 000 000)	<b>614 242 000</b>	614 276 860	<b>34 860</b>	55
Interest income	9 658 489	(2 401 696)	<b>7 256 793</b>	6 196 457	<b>(1 060 336)</b>	55
	<b>700 413 621</b>	<b>36 718 046</b>	<b>737 131 667</b>	<b>660 545 782</b>	<b>(76 585 885)</b>	
<b>Payments</b>						
Suppliers and employees	(388 568 976)	(92 796 953)	<b>(481 365 929)</b>	(415 415 713)	<b>65 950 216</b>	55
Finance costs	(3 522 082)	(658 266)	<b>(4 180 348)</b>	(4 283 737)	<b>(103 389)</b>	55
Transfer payments	(14 000 000)	-	<b>(14 000 000)</b>	(14 000 000)	-	55
	<b>(406 091 058)</b>	<b>(93 455 219)</b>	<b>(499 546 277)</b>	<b>(433 699 450)</b>	<b>65 846 827</b>	
<b>Net cash flows from operating activities</b>	<b>294 322 563</b>	<b>(56 737 173)</b>	<b>237 585 390</b>	<b>226 846 332</b>	<b>(10 739 058)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(282 624 043)	14 633 375	<b>(267 990 668)</b>	(233 043 490)	<b>34 947 178</b>	
Proceeds from sale of property, plant and equipment	-	-	-	1 061 620	<b>1 061 620</b>	
<b>Net cash flows from investing activities</b>	<b>(282 624 043)</b>	<b>14 633 375</b>	<b>(267 990 668)</b>	<b>(231 981 870)</b>	<b>36 008 798</b>	
<b>Cash flows from financing activities</b>						
Repayment of borrowings	(3 896 000)	(8 631 759)	<b>(12 527 759)</b>	(4 101 623)	<b>8 426 136</b>	
Finance lease payments	-	-	-	(8 454 788)	<b>(8 454 788)</b>	
<b>Net cash flows from financing activities</b>	<b>(3 896 000)</b>	<b>(8 631 759)</b>	<b>(12 527 759)</b>	<b>(12 556 411)</b>	<b>(28 652)</b>	
Net increase/(decrease) in cash and cash equivalents	7 802 520	(50 735 557)	<b>(42 933 037)</b>	(17 691 949)	<b>25 241 088</b>	
Cash and cash equivalents at the beginning of the year	112 335 670	(40 742 905)	<b>71 592 765</b>	58 362 814	<b>(13 229 951)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>120 138 190</b>	<b>(91 478 462)</b>	<b>28 659 728</b>	<b>40 670 865</b>	<b>12 011 137</b>	

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the economic entity will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

#### 1.4 Consolidation/Entity combinations

##### Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the economic entity presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity's annual financial statements at the acquisition date.

The annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.4 Consolidation/Entity combinations (continued)

Adjustments are made when necessary to the annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

### 1.5 Significant judgements and sources of estimation uncertainty

In the process of applying its accounting policies, and in preparing the annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the annual financial statements and as well as related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### Trade receivables / Held to maturity investments and/or loans and receivables

The economic entity assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including entity specific, together with economic factors.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The economic entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the economic entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Effective interest rate

The economic entity used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the the estimated allowance based on the consumer debtors methodology.

### 1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

### 1.6 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Office		30 years
Transport assets	Straight line	
• Motor vehicles		7 years
• Trailers and accessories		10 years
• Trucks		10 years
Furniture and office equipment	Straight line	
• Office equipment (including fax machines)		7 years
• Office furniture		10 years
• Paintings, sculptures, ornaments (home and office)		10 years
Computer equipment	Straight line	
• Computer hardware including operating systems		5 years
• Networks		10 years
• Computer software		5 years
Dams/structure	Straight line	
• Concrete		100 years
• Earth		50 years
River	Straight line	
• Structure: Weir		50 years
• Borehole Establishment		30 years
Pump Stations	Straight line	
• Structure- buildings		55 years
• Structure-Clarifiers		55 years
• Structure-Filters		55 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports		15 years
Perimeter protection	Straight line	
• Palisade - Concrete		25 years
• Palisade -Steel / Razor wire / Weld mesh		15 years
Reservoirs	Straight line	
• Structure - Concrete		50 years
• Structure - Galaxy		30 years
• Structure - Steel Tank		30 years
• Structure - Jojo		15 years
• Electrical		20 years
• Mechanical		15 years
Underground: Chambers & Manholes	Straight line	
• Chambers		30 years
• Manholes		30 years
Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
• Mechanical		15 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.6 Property, plant and equipment (continued)

Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure - Drying Beds		55 years
• Structure - Clarifiers chambers		35 years
• Structure - Maturation Ponds		35 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports, ect		15 years
• Rising mains		40 years
• Gravity mains		40 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 years
• Kitchen appliances		10 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the economic entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The economic entity assesses at each reporting date whether there is any indication that the economic entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the economic entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the economic entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

The economic entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

---

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

---

### 1.8 Investments in controlled entities

#### Economic entity annual financial statements

Investments in controlled entities are consolidated in the economic entity annual financial statements. Refer to the accounting policy on Consolidations (Note 1.4).

#### Controlling entity annual financial statements

In the municipality's separate annual financial statements, investments in investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity's separate annual financial statements.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Short-term Investment Deposits	Financial asset measured at amortised cost
Bank Balances and Cash	Financial asset measured at amortised cost
Long-term Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Other Debtors	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at cost
Consumer deposits	Financial liability measured at cost
Finance lease	Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

### 1.10 Tax

#### Value Added Tax

The Municipality accounts for Value Added Tax on the payments basis.

### 1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.11 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.13 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

### 1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.15 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.15 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.16 Provisions and contingencies

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.16 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the economic entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity

No obligation arises as a consequence of the sale or transfer of an operation until the economic entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The economic entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.16 Provisions and contingencies (continued)

- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the economic entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the economic entity considers that an outflow of economic resources is probable, an economic entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

### Water and sanitation

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.18 Revenue from exchange transactions (continued)

#### Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff.

#### Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.19 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.25 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.26 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### 1.27 Budget information

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the economic entity.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.28 Related parties (continued)

The economic entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the economic entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the economic entity is exempt from the disclosures in accordance with the above, the economic entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The economic entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the economic entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The economic entity has adopted the amendment for the first time in the 2019/2020 annual financial statements.

The impact of the amendment is not material.

##### GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2019

The economic entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

The impact of the standard is not material.

##### GRAP 20: Related parties

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The economic entity has adopted the standard for the first time in the 2019/2020 annual financial statements.



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

The impact of the standard is not material.

#### **GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The economic entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 106 (as amended 2016): Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The subsequent amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the standard is for years beginning on or after 01 April 2019.

The economic entity has adopted the standard for the first time in the 2019/2020 annual financial statements.

The impact of the standard is not material.

#### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The economic entity has adopted the standard for the first time when the Minister sets the effective date for the standard.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

The impact of the standard is not material.

#### 2.2 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2020 or later periods:

##### **GRAP 104 (amended): Financial Instruments**

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The economic entity expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

##### **GRAP 1 (amended): Presentation of Financial Statements**

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

##### **Materiality and aggregation**

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

##### **Statement of financial position and statement of financial performance**

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

##### **Notes structure**

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

#### Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An economic entity applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

#### GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The adoption of this standard is not expected to impact on the results of the economic entity, but may result in more disclosure than is currently provided in the annual financial statements.

### 2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2020 or later periods but are not relevant to its operations:

#### GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's annual financial statements.

### 3. Inventories

---

Water for distribution	267 013	247 710	267 013	247 710
------------------------	---------	---------	---------	---------

---

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 4. Receivables from exchange transactions

Department of Education	-	5 052 115	-	-
-------------------------	---	-----------	---	---

### 5. Receivables from non-exchange transactions

Unauthorised expenditure	-	5 979	-	5 979
Debtor-Kokstad deposits	-	105 753	-	105 753
Councillors laptops	-	94 045	-	94 045
ACB/debtors	-	424 247	-	424 247
Other debtors	3 878 721	3 827 677	3 878 721	3 827 677
Cyclone construction - Farmers market	-	2 000 000	-	2 000 000
Councillors bursary	-	19 537	-	19 537
SARS - debtors/salaries	-	181 259	-	181 259
	<b>3 878 721</b>	<b>6 658 497</b>	<b>3 878 721</b>	<b>6 658 497</b>

### Receivables from non-exchange transactions impaired

As of 30 June 2020, other receivables from non-exchange transactions of R 2 830 820 (2019: R -) were impaired and provided for.

The amount of the provision was R 2 830 820 as of 30 June 2020 (2019: R -).

The ageing of these receivables is as follows:

Over 6 months	2 830 820	-	2 830 820	-
---------------	-----------	---	-----------	---

### The receivables provided for are as follows:

Unauthorised expenditure	5 979	-	5 979	-
Debtor-Kokstad deposits	105 753	-	105 753	-
Councillors laptops	94 045	-	94 045	-
ACB/debtors	424 247	-	424 247	-
Cyclone construction - Farmers market	2 000 000	-	2 000 000	-
Councillors bursary	19 537	-	19 537	-
SARS - debtors/salaries	181 259	-	181 259	-
Subtotal	2 830 820	-	2 830 820	-
Less: Allowance for impairment	(2 830 820)	-	(2 830 820)	-
	-	-	-	-

### 6. VAT receivable

VAT	6 764 717	11 698 132	6 757 009	11 145 580
-----	-----------	------------	-----------	------------

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>7. Consumer debtors</b>				
<b>Gross balances</b>				
Water	124 123 802	108 370 289	124 123 802	108 370 289
Value Added Tax	19 370 300	16 899 186	19 370 300	16 899 186
Sewerage	57 169 732	52 374 004	57 169 732	52 374 004
	<b>200 663 834</b>	<b>177 643 479</b>	<b>200 663 834</b>	<b>177 643 479</b>
<b>Less: Allowance for impairment</b>				
Water	(102 728 940)	(89 829 804)	(102 728 940)	(89 829 804)
Value Added Tax	(15 956 094)	(13 975 098)	(15 956 094)	(13 975 098)
Sewerage	(50 950 063)	(46 905 210)	(50 950 063)	(46 905 210)
	<b>(169 635 097)</b>	<b>(150 710 112)</b>	<b>(169 635 097)</b>	<b>(150 710 112)</b>
<b>Net balance</b>				
Water	21 394 862	18 540 485	21 394 862	18 540 485
Value Added Tax	3 414 206	2 924 088	3 414 206	2 924 088
Sewerage	6 219 669	5 468 794	6 219 669	5 468 794
	<b>31 028 737</b>	<b>26 933 367</b>	<b>31 028 737</b>	<b>26 933 367</b>
<b>Water</b>				
Current (0 -30 days)	12 962 874	10 090 866	12 962 874	10 090 866
31 - 60 days	2 858 784	4 019 650	2 858 784	4 019 650
61 - 90 days	3 544 282	3 079 361	3 544 282	3 079 361
91 - 120 days	3 304 879	2 983 362	3 304 879	2 983 362
> 120 days	101 452 984	88 197 050	101 452 984	88 197 050
Less: Allowance for impairment	(102 728 941)	(89 829 804)	(102 728 941)	(89 829 804)
	<b>21 394 862</b>	<b>18 540 485</b>	<b>21 394 862</b>	<b>18 540 485</b>
<b>Value Added Tax</b>				
Current (0 -30 days)	2 304 290	1 655 976	2 304 290	1 655 976
31 - 60 days	480 470	618 896	480 470	618 896
61 - 90 days	574 208	509 691	574 208	509 691
91 - 120 days	534 215	485 814	534 215	485 814
> 120 days	15 477 117	13 628 808	15 477 117	13 628 808
Less: Allowance for impairment	(15 956 094)	(13 975 097)	(15 956 094)	(13 975 097)
	<b>3 414 206</b>	<b>2 924 088</b>	<b>3 414 206</b>	<b>2 924 088</b>
<b>Sewerage</b>				
Current (0 -30 days)	4 162 733	3 235 953	4 162 733	3 235 953
31 - 60 days	1 298 510	1 462 689	1 298 510	1 462 689
61 - 90 days	1 441 080	1 126 258	1 441 080	1 126 258
91 - 120 days	1 396 085	1 122 575	1 396 085	1 122 575
> 120 days	48 871 324	45 426 528	48 871 324	45 426 528
Less: Allowance for impairment	(50 950 063)	(46 905 209)	(50 950 063)	(46 905 209)
	<b>6 219 669</b>	<b>5 468 794</b>	<b>6 219 669</b>	<b>5 468 794</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>7. Consumer debtors (continued)</b>				
<b>Summary of debtors by customer classification</b>				
<b>Domestic and other consumers</b>				
Current (0 -30 days)	12 239 279	9 726 222	12 239 279	9 726 222
31 - 60 days	3 455 759	4 512 202	3 455 759	4 512 202
61 - 90 days	4 279 088	4 049 332	4 279 088	4 049 332
91 - 120 days	4 271 773	3 914 096	4 271 773	3 914 096
> 120 days	150 438 972	136 033 332	150 438 972	136 033 332
	174 684 871	158 235 184	174 684 871	158 235 184
Less: Allowance for impairment	(169 635 097)	(150 710 112)	(169 635 097)	(150 710 112)
	<b>5 049 774</b>	<b>7 525 072</b>	<b>5 049 774</b>	<b>7 525 072</b>
<b>Industrial/ commercial</b>				
Current (0 -30 days)	2 036 749	1 416 988	2 036 749	1 416 988
31 - 60 days	478 686	656 668	478 686	656 668
61 - 90 days	507 920	323 687	507 920	323 687
91 - 120 days	522 129	358 418	522 129	358 418
> 120 days	11 034 257	8 096 089	11 034 257	8 096 089
	<b>14 579 741</b>	<b>10 851 850</b>	<b>14 579 741</b>	<b>10 851 850</b>
<b>National and provincial government</b>				
Current (0 -30 days)	5 153 869	3 839 585	5 153 869	3 839 585
31 - 60 days	703 319	932 366	703 319	932 366
61 - 90 days	772 562	342 291	772 562	342 291
91 - 120 days	441 276	319 238	441 276	319 238
> 120 days	4 328 195	3 122 966	4 328 195	3 122 966
	<b>11 399 221</b>	<b>8 556 446</b>	<b>11 399 221</b>	<b>8 556 446</b>
<b>Total</b>				
Current (0 -30 days)	19 429 897	14 982 795	19 429 897	14 982 795
31 - 60 days	4 637 764	6 101 236	4 637 764	6 101 236
61 - 90 days	5 559 570	4 715 310	5 559 570	4 715 310
91 - 120 days	5 235 178	4 591 752	5 235 178	4 591 752
> 120 days	165 801 425	147 252 386	165 801 425	147 252 386
	200 663 834	177 643 479	200 663 834	177 643 479
Less: Allowance for impairment	(169 635 097)	(150 710 112)	(169 635 097)	(150 710 112)
	<b>31 028 737</b>	<b>26 933 367</b>	<b>31 028 737</b>	<b>26 933 367</b>
<b>Less: Allowance for impairment</b>				
61 - 180 days	(24 262 150)	(57 970 282)	(24 262 150)	(57 970 282)
181 - 1080 days	(128 838 073)	(84 956 833)	(128 838 073)	(84 956 833)
> 1080 days	(16 534 874)	(7 782 997)	(16 534 874)	(7 782 997)
	<b>(169 635 097)</b>	<b>(150 710 112)</b>	<b>(169 635 097)</b>	<b>(150 710 112)</b>
<b>Reconciliation of allowance for impairment</b>				
Balance at beginning of the year	(150 710 112)	(159 669 872)	(150 710 112)	(159 669 872)
Contributions to allowance	(40 231 485)	(19 110 915)	(40 231 485)	(19 110 915)
Debt impairment written off against allowance	21 306 500	28 070 675	21 306 500	28 070 675
	<b>(169 635 097)</b>	<b>(150 710 112)</b>	<b>(169 635 097)</b>	<b>(150 710 112)</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	983	405	300	300
Bank balances	10 258 245	4 409 719	9 616 287	2 788 082
Short-term deposits	38 471 820	67 176 685	31 054 279	55 574 432
	<b>48 731 048</b>	<b>71 586 809</b>	<b>40 670 866</b>	<b>58 362 814</b>

### Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for Eskom account	200 000	200 000	200 000	200 000
--	---------	---------	---------	---------

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
FNB Ixopo branch account number 62022648169	9 616 287	2 799 177	2 793 500	9 616 287	2 788 082	2 822 218
FNB call account number 62032587331	14 849 005	513 547	180 802	14 849 005	513 547	180 802
FNB call account number 62095523281	1 755 268	1 356 057	1 243 741	1 755 268	1 356 057	1 243 741
FNB call account number 62138538692	3 585 474	18 656 530	34 075 686	3 585 474	18 656 530	34 075 686
FNB call account number 62398395204	2 000	27 061 010	17 289 757	2 000	27 061 010	17 289 757
FNB call account number 62434145331	336 355	4 484	2 605	336 355	4 484	2 605
FNB call account number 62434147072	14 346	3 149 929	9 190 531	14 346	3 149 929	9 190 531
FNB call account number 62434151239	8 390 008	3 602	68 407	8 390 008	3 602	68 407
FNB call account number 62414264797	4 320	5 983	9 600	4 320	5 983	9 600
Investec bank call account number 50006688425	2 117 496	4 823 284	32 071 021	2 117 496	4 823 284	32 071 021
FNB Ixopo branch account number 62313233504	641 958	1 621 637	4 104 717	641 958	1 621 637	4 104 717
Standard Bank Kloof branch account number 251660419	826 903	833 833	840 685	826 903	833 833	840 685
FNB Ixopo branch account number 62372506306	3 153 001	241 690	399 471	3 153 001	241 690	399 471
Standard Bank Kloof branch account number 254472435	2 383 576	10 409 473	9 915 188	2 383 576	10 409 473	9 915 188
FNB call account number 62478289989	1 054 061	117 257	113 116	1 054 061	117 257	113 116
<b>Total</b>	<b>48 730 058</b>	<b>71 597 493</b>	<b>112 298 827</b>	<b>48 730 058</b>	<b>71 586 398</b>	<b>112 327 545</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment

Economic entity	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 672 272	-	13 672 272	13 672 272	-	13 672 272
Buildings	61 235 605	(17 338 865)	43 896 740	61 235 605	(15 335 671)	45 899 934
Machinery and equipment	2 263 511	(1 890 656)	372 855	2 282 617	(1 715 408)	567 209
Furniture and office equipment	6 783 837	(5 192 504)	1 591 333	6 205 875	(4 560 063)	1 645 812
Transport assets	15 694 361	(8 877 625)	6 816 736	9 905 983	(6 849 145)	3 056 838
Computer equipment	8 598 510	(3 669 653)	4 928 857	6 198 584	(2 638 347)	3 560 237
Infrastructure: information and communication	595 725	(349 127)	246 598	1 262 001	(932 148)	329 853
Infrastructure	2 818 558 211	(539 604 682)	2 278 953 529	2 593 090 515	(482 168 690)	2 110 921 825
Community	5 048 079	(2 201 826)	2 846 253	5 188 302	(2 110 543)	3 077 759
Leased assets	26 208 762	(17 980 472)	8 228 290	30 208 901	(16 217 343)	13 991 558
<b>Total</b>	<b>2 958 658 873</b>	<b>(597 105 410)</b>	<b>2 361 553 463</b>	<b>2 729 250 655</b>	<b>(532 527 358)</b>	<b>2 196 723 297</b>



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

Controlling entity	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 672 272	-	13 672 272	13 672 272	-	13 672 272
Buildings	34 780 745	(11 347 831)	23 432 914	34 780 745	(10 279 957)	24 500 788
Machinery and equipment	2 165 262	(1 806 300)	358 962	2 184 368	(1 634 953)	549 415
Furniture and office equipment	6 095 762	(4 682 684)	1 413 078	5 517 800	(4 119 128)	1 398 672
Transport assets	15 694 361	(8 877 625)	6 816 736	9 905 983	(6 849 145)	3 056 838
Computer equipment	7 745 479	(3 220 039)	4 525 440	5 398 489	(2 260 879)	3 137 610
Infrastructure: information and communication	595 725	(349 127)	246 598	1 262 001	(932 148)	329 853
Infrastructure	2 818 558 211	(539 604 682)	2 278 953 529	2 593 090 515	(482 168 690)	2 110 921 825
Community	5 048 079	(2 201 826)	2 846 253	5 188 302	(2 110 543)	3 077 759
Leased assets	26 208 762	(17 980 472)	8 228 290	30 208 901	(16 217 343)	13 991 558
<b>Total</b>	<b>2 930 564 658</b>	<b>(590 070 586)</b>	<b>2 340 494 072</b>	<b>2 701 209 376</b>	<b>(526 572 786)</b>	<b>2 174 636 590</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Economic entity - 2020

	Opening balance	Additions	Disposals	Transfers received	Reclassificati on of Assets	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	-	13 672 272
Buildings	45 899 934	-	-	-	-	(2 003 194)	-	43 896 740
Machinery and equipment	567 209	-	-	-	11 835	(206 189)	-	372 855
Furniture and office equipment	1 645 812	684 263	(1 799)	-	5 452	(742 395)	-	1 591 333
Transport assets	3 056 838	-	(244 553)	5 855 141	233 978	(2 084 668)	-	6 816 736
Computer equipment	3 560 237	2 906 902	(111 173)	-	27 843	(1 454 952)	-	4 928 857
Infrastructure: information and communication	329 853	-	(92)	-	1	(83 164)	-	246 598
Infrastructure	2 110 921 825	229 570 949	(2 329 606)	-	2 070	(58 186 161)	(1 025 548)	2 278 953 529
Community	3 077 759	-	-	-	(2 070)	(229 436)	-	2 846 253
Leased assets	13 991 558	1 295 912	(82 941)	-	(279 112)	(6 697 127)	-	8 228 290
	<b>2 196 723 297</b>	<b>234 458 026</b>	<b>(2 770 164)</b>	<b>5 855 141</b>	<b>(3)</b>	<b>(71 687 286)</b>	<b>(1 025 548)</b>	<b>2 361 553 463</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Economic entity - 2019

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	13 672 272
Buildings	47 842 281	53 590	-	-	(1 995 937)	-	45 899 934
Machinery and equipment	724 443	85 308	-	-	(227 788)	(14 754)	567 209
Furniture and office equipment	1 932 457	473 021	(10 844)	-	(738 476)	(10 346)	1 645 812
Transport assets	2 903 407	1 268 778	-	-	(1 115 347)	-	3 056 838
Computer equipment	1 737 560	2 670 716	(1 583)	-	(834 850)	(11 606)	3 560 237
Infrastructure: information and communication	447 808	-	-	-	(117 955)	-	329 853
Infrastructure	1 912 700 156	252 343 053	(8 935 600)	13 424 406	(55 896 846)	(2 713 344)	2 110 921 825
Community	3 317 979	-	-	-	(240 220)	-	3 077 759
Leased assets	10 485 109	10 202 765	-	-	(6 696 316)	-	13 991 558
	<b>1 995 763 472</b>	<b>267 097 231</b>	<b>(8 948 027)</b>	<b>13 424 406</b>	<b>(67 863 735)</b>	<b>(2 750 050)</b>	<b>2 196 723 297</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Controlling entity - 2020

	Opening balance	Additions	Disposals	Transfers received	Reclassificati on of Assets	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	-	13 672 272
Buildings	24 500 788	-	-	-	1	(1 067 875)	-	23 432 914
Machinery and equipment	549 415	-	-	-	11 835	(202 288)	-	358 962
Furniture and office equipment	1 398 672	684 263	(1 799)	-	5 452	(673 510)	-	1 413 078
Transport assets	3 056 838	-	(244 553)	5 855 141	233 978	(2 084 668)	-	6 816 736
Computer equipment	3 137 610	2 788 278	(55 311)	-	27 843	(1 372 980)	-	4 525 440
Infrastructure: information and communication	329 853	-	(92)	-	1	(83 164)	-	246 598
Infrastructure	2 110 921 825	229 570 949	(2 329 606)	-	2 070	(58 186 161)	(1 025 548)	2 278 953 529
Community	3 077 759	-	-	-	(2 070)	(229 436)	-	2 846 253
Leased assets	13 991 558	1 295 912	(82 941)	-	(279 112)	(6 697 127)	-	8 228 290
	<b>2 174 636 590</b>	<b>234 339 402</b>	<b>(2 714 302)</b>	<b>5 855 141</b>	<b>(2)</b>	<b>(70 597 209)</b>	<b>(1 025 548)</b>	<b>2 340 494 072</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Controlling entity - 2019

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	13 672 272
Buildings	25 568 663	-	-	-	(1 067 875)	-	24 500 788
Machinery and equipment	683 817	85 308	-	-	(204 956)	(14 754)	549 415
Furniture and office equipment	1 607 764	466 921	(10 844)	-	(654 823)	(10 346)	1 398 672
Transport assets	2 903 407	1 268 778	-	-	(1 115 347)	-	3 056 838
Computer equipment	1 505 477	2 418 572	(1 583)	-	(773 250)	(11 606)	3 137 610
Infrastructure: information and communication	447 808	-	-	-	(117 955)	-	329 853
Infrastructure	1 912 700 156	252 343 053	(8 935 600)	13 424 406	(55 896 846)	(2 713 344)	2 110 921 825
Community	3 317 979	-	-	-	(240 220)	-	3 077 759
Leased assets	10 485 109	10 202 765	-	-	(6 696 316)	-	13 991 558
	<b>1 972 892 452</b>	<b>266 785 397</b>	<b>(8 948 027)</b>	<b>13 424 406</b>	<b>(66 767 588)</b>	<b>(2 750 050)</b>	<b>2 174 636 590</b>

#### Reconciliation of Work-in-Progress Economic entity - 2020

	Included within Infrastructure water and sanitation	Total
Opening balance	626 122 629	626 122 629
Additions/capital expenditure	228 551 343	228 551 343
Written off - Retentions prior period error	(3 372 695)	(3 372 695)
Transferred to completed items	(184 117 667)	(184 117 667)
	<b>667 183 610</b>	<b>667 183 610</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 9. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress Economic entity - 2019

	Included within infrastructure water and sanitation	Total
Opening balance	408 628 097	408 628 097
Additions/capital expenditure	252 343 054	252 343 054
Transferred to completed items	(34 297 683)	(34 297 683)
Transfer received from COGTA	2 240 255	2 240 255
Written off - prior period error	(2 791 094)	(2 791 094)
	<b>626 122 629</b>	<b>626 122 629</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

##### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	25 624 743	11 692 798	25 624 743	11 652 798
Material Consumed	5 399 724	25 588 572	5 399 724	25 588 572
Other	40 547	85 655	-	-
	<b>31 065 014</b>	<b>37 367 025</b>	<b>31 024 467</b>	<b>37 241 370</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Intangible assets

Economic entity	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 838 578	(1 684 401)	2 154 177	4 836 362	(2 401 189)	2 435 173

Controlling entity	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 424 263	(1 548 960)	875 303	3 598 216	(2 401 189)	1 197 027

### Reconciliation of intangible assets - Economic entity - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 435 173	176 169	(457 165)	2 154 177

### Reconciliation of intangible assets - Economic entity - 2019

	Opening balance	Additions	Amortisation write-back	Amortisation	Total
Computer software, other	1 865 412	193 140	602 463	(225 842)	2 435 173

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Intangible assets (continued)

#### Reconciliation of intangible assets - Controlling entity - 2020

	Opening balance	Amortisation	Total
Computer software, other	1 197 027	(321 724)	875 303

#### Reconciliation of intangible assets - Controlling entity - 2019

	Opening balance	Amortisation	Total
Computer software, other	1 422 868	(225 841)	1 197 027

### 11. Investments in controlled entities

Name of company	Held by	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
Harry Gwala Development Agency	Harry Gwala District Municipality	100,00 %	100,00 %	100	100

The carrying amounts of controlled entities are shown net of impairment losses.

### 12. Borrowings

#### At amortised cost

ABSA loan	4 555 057	8 656 680	4 555 057	8 656 680
The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually. The loan is redeemable in twenty equal installments bi-annually in arrears on 30 June and 31 December each year until 30 June 2021.				

#### Non-current liabilities

At amortised cost	-	4 555 057	-	4 555 057
-------------------	---	-----------	---	-----------



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>12. Borrowings (continued)</b>				
<b>Current liabilities</b>				
At amortised cost	4 555 057	4 101 623	4 555 057	4 101 623
<b>13. Finance lease obligation</b>				
<b>Minimum lease payments due</b>				
- within one year	6 080 060	10 077 729	5 973 903	9 963 051
- in second to fifth year inclusive	5 317 903	9 691 339	5 241 452	9 620 328
	11 397 963	19 769 068	11 215 355	19 583 379
less: future finance charges	(962 195)	(2 171 343)	(962 195)	(2 171 343)
<b>Present value of minimum lease payments</b>	<b>10 435 768</b>	<b>17 597 725</b>	<b>10 253 160</b>	<b>17 412 036</b>
<b>Present value of minimum lease payments due</b>				
- within one year	5 455 092	8 540 814	5 348 935	8 426 136
- in second to fifth year inclusive	4 980 676	9 056 911	4 904 225	8 985 900
	<b>10 435 768</b>	<b>17 597 725</b>	<b>10 253 160</b>	<b>17 412 036</b>
Non-current liabilities	4 980 676	9 056 912	4 904 225	8 985 901
Current liabilities	5 455 092	8 540 813	5 348 935	8 426 135
	<b>10 435 768</b>	<b>17 597 725</b>	<b>10 253 160</b>	<b>17 412 036</b>

It is economic entity policy to lease certain motor vehicles and equipment under finance leases.

Interest rates are linked to prime at the contract date. All leases escalate at 6% p.a and no arrangements have been entered into for contingent rent.

## 14. Payables from exchange transactions

Trade payables	28 211 348	29 860 516	28 101 738	29 415 139
Accrued fuel	12 934	1 139	-	-
Retentions	50 595 075	42 240 595	50 595 075	42 240 595
Accrued leave pay	13 772 762	11 345 687	13 294 300	11 000 334
Debtors with credit balance	7 861 544	6 976 757	7 861 544	6 976 757
Other payables	1 046 825	234	1 046 825	234
Payroll third party payments accrued	2 750	6 507 308	-	6 238 359
	<b>101 503 238</b>	<b>96 932 236</b>	<b>100 899 482</b>	<b>95 871 418</b>

## 15. Consumer deposits

Water	1 863 257	1 768 018	1 863 257	1 768 018
-------	-----------	-----------	-----------	-----------

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 16. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Post retirement medical aid plan	(9 955 999)	(11 438 391)	(9 955 999)	(11 438 391)
Long service awards	(8 523 000)	(7 501 821)	(8 523 000)	(7 501 821)
	<b>(18 478 999)</b>	<b>(18 940 212)</b>	<b>(18 478 999)</b>	<b>(18 940 212)</b>
Non-current liabilities	(17 708 999)	(18 621 498)	(17 708 999)	(18 621 498)
Current liabilities	(770 000)	(318 714)	(770 000)	(318 714)
	<b>(18 478 999)</b>	<b>(18 940 212)</b>	<b>(18 478 999)</b>	<b>(18 940 212)</b>

#### Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed
- Fedhealth

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	11 438 391	17 727 986	11 438 391	17 727 986
Benefits paid	(55 842)	(52 537)	(55 842)	(52 537)
Net expense recognised in the statement of financial performance	(1 426 550)	(6 237 058)	(1 426 550)	(6 237 058)
	<b>9 955 999</b>	<b>11 438 391</b>	<b>9 955 999</b>	<b>11 438 391</b>

#### Net expense recognised in the statement of financial performance

Current service cost	1 071 675	1 469 279	1 071 675	1 469 279
Interest cost	1 120 572	1 748 991	1 120 572	1 748 991
Actuarial (gains) losses	(3 618 797)	(9 455 328)	(3 618 797)	(9 455 328)
	<b>(1 426 550)</b>	<b>(6 237 058)</b>	<b>(1 426 550)</b>	<b>(6 237 058)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11,50 %	9,82 %	11,50 %	9,82 %
Expected increase in healthcare costs	7,41 %	7,19 %	7,41 %	7,19 %
Net Effective Discount Rate	3,81 %	2,45 %	3,81 %	2,45 %

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 16. Employee benefit obligations (continued)

#### Long service awards

The municipality operate an unfunded defined benefit plan for all its employees. Under the plan a Long-service Award is payable after 10 years thereafter to employees. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	7 501 821	5 221 343	7 501 821	5 221 343
Benefits paid	(262 872)	(679 929)	(262 872)	(679 929)
Net expense recognised in the statement of financial performance	1 284 051	2 960 407	1 284 051	2 960 407
	<b>8 523 000</b>	<b>7 501 821</b>	<b>8 523 000</b>	<b>7 501 821</b>

#### Net expense recognised in the statement of financial performance

Current service cost	880 782	551 996	880 782	551 996
Interest cost	612 697	419 422	612 697	419 422
Actuarial (gains)/ losses	(209 428)	1 988 989	(209 428)	1 988 989
	<b>1 284 051</b>	<b>2 960 407</b>	<b>1 284 051</b>	<b>2 960 407</b>

#### Key assumptions used

Discount rate	7,63 %	8,31 %	7,63 %	8,31 %
Salary cost inflation rate	4,16 %	5,64 %	4,16 %	5,64 %
Net effective discount rate	3,33 %	2,53 %	3,33 %	2,53 %
Expected retirement age - females	62	62	62	62
Expected retirement age - males	62	62	62	62

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal infrastructure grant	-	23 237 887	-	23 237 887
Radical agrarian socio-economic transformation (RASET)	500 000	-	-	-
Department of higher education and training grant	3 210 479	11 243 306	-	-
Development bank of South Africa	1 054 061	1 054 061	-	-
Water services infrastructure grant - Drought relief	-	20 000 000	-	20 000 000
Development planning shared services grant	486 481	818 472	486 481	818 472
Sihleza maize production project (cogta)	-	242 413	-	242 413
Signage grant - Cogta	-	98 112	-	98 112
Cogta water intervention grant	15 000 000	-	15 000 000	-
	<b>20 251 021</b>	<b>56 694 251</b>	<b>15 486 481</b>	<b>44 396 884</b>

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 18. Long term payable from non exchange transactions

During the 2018/2019 financial year the municipality entered into an arrangement with the Special Investigating Unit (SIU) to repay the amount owed by the municipality in monthly installment of R200 000. There is no interest charged on the outstanding balance. The amount payable after 12 months was therefore reclassified to non - current liabilities.

### 19. Other financial liability

The liability arose through the implementation of the RASET program. HGDA entered into an agreement with Ithala Development Finance Corporation, the agreement was that Ithala would pay the farmers on behalf of HGDA when they supply their produce, Ithala would then recover its money once the KZN Department of Education pays Harry Gwala for the supplies.

The loan is interest free.

### 20. Service charges

Sale of water	54 157 319	43 001 397	54 157 319	43 001 397
Sewerage and sanitation charges	16 305 326	15 419 246	16 305 326	15 419 246
	<b>70 462 645</b>	<b>58 420 643</b>	<b>70 462 645</b>	<b>58 420 643</b>

### 21. Other income

Staff recoveries	601 923	-	601 923	-
Clearance certificate	982	3 643	982	3 643
Tender documents	750 520	735 100	750 520	693 700
Management fees	-	46 122	-	46 122
	<b>1 353 425</b>	<b>784 865</b>	<b>1 353 425</b>	<b>743 465</b>

### 22. Investment revenue

#### Interest revenue

Interest on outstanding debtors	12 632 447	9 918 909	12 632 447	9 918 909
Interest on investments	6 355 495	10 046 428	6 196 457	9 839 028
	<b>18 987 942</b>	<b>19 965 337</b>	<b>18 828 904</b>	<b>19 757 937</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 23. Government grants and subsidies

#### Operating grants

Equitable share	345 308 887	318 074 028	345 308 887	318 074 028
Expanded public works programme	5 316 000	2 518 000	5 316 000	2 518 000
Radical agrarian socio-economic transformation	-	3 000 000	-	-
Financial management grant	1 000 000	1 000 000	1 000 000	1 000 000
Local Govt. sector education training authority	416 385	287 131	416 385	287 131
Municipal infrastructure grant	9 808 060	30 394 621	9 808 060	30 394 621
Water services infrastructure grant	8 536 633	16 828 660	8 536 633	16 828 660
Rural roads asset management system grant	2 358 000	2 226 000	2 358 000	2 226 000
Energy efficient and demand management grant	7 000 000	-	7 000 000	-
Government experts	-	445 014	-	445 014
Disaster management grant	596 000	-	596 000	-
Development planning shared services grant	331 991	345 571	331 991	345 571
	<b>380 671 956</b>	<b>375 119 025</b>	<b>380 671 956</b>	<b>372 119 025</b>

#### Capital grants

Rural Bulk Infrastructure grant	20 000 000	70 000 000	20 000 000	70 000 000
Municipal Infrastructure grant	191 051 940	152 754 502	191 051 940	152 754 502
Water services infrastructure grant	51 463 367	63 571 340	51 463 367	63 571 340
	<b>262 515 307</b>	<b>286 325 842</b>	<b>262 515 307</b>	<b>286 325 842</b>
	<b>643 187 263</b>	<b>661 444 867</b>	<b>643 187 263</b>	<b>658 444 867</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Municipal infrastructure grant

Balance unspent at beginning of year	23 237 887	10 039 000	23 237 887	10 039 000
Current-year receipts	200 860 000	196 587 000	200 860 000	196 587 000
Conditions met transferred to revenue (current year allocation - capital)	(191 051 940)	(142 954 492)	(191 051 940)	(142 954 492)
Conditions met transferred to revenue (current year allocation - operational)	(9 808 060)	(30 394 621)	(9 808 060)	(30 394 621)
Conditions met transferred to revenue (approved rollover- capital)	-	(9 800 000)	-	(9 800 000)
Repayment of unspent portion	(23 237 887)	(239 000)	(23 237 887)	(239 000)
	-	<b>23 237 887</b>	-	<b>23 237 887</b>

Conditions still to be met - remain liabilities (see note 17).

The municipal infrastructure grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas.

#### Water services infrastructure grant - drought relief

Balance unspent at beginning of year	20 000 000	-	20 000 000	-
Current-year receipts	-	20 000 000	-	20 000 000
Repayment of unspent portion	(20 000 000)	-	(20 000 000)	-
	-	<b>20 000 000</b>	-	<b>20 000 000</b>

Conditions still to be met - remain liabilities (see note 17).

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 23. Government grants and subsidies (continued)

#### Water services infrastructure grant

Balance unspent at beginning of year	-	49 012 312	-	49 012 312
Current-year receipts	60 000 000	80 400 000	60 000 000	80 400 000
Conditions met transferred to revenue (current year allocation - capital)	(51 463 367)	(63 571 340)	(51 463 367)	(63 571 340)
Conditions met transferred to revenue (current year allocation - operational)	(8 536 633)	(16 828 660)	(8 536 633)	(16 828 660)
Repayment of unspent portion	-	(49 012 312)	-	(49 012 312)
	-	-	-	-

The water services infrastructure grant is used to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services.

#### Regional bulk infrastructure grant

Balance unspent at beginning of year	-	10 375	-	10 375
Current-year receipts	20 000 000	70 000 000	20 000 000	70 000 000
Conditions met - transferred to revenue	(20 000 000)	(70 000 000)	(20 000 000)	(70 000 000)
Repayment of unspent portion	-	(10 375)	-	(10 375)
	-	-	-	-

Regional bulk infrastructure grant is utilised to address water infrastructure projects approved.

#### Financial management grant

Current-year receipts	1 000 000	1 000 000	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)	(1 000 000)	(1 000 000)
	-	-	-	-

Financial management grant is used to implement financial management reforms required by the MFMA.

#### Radical agrarian socio-economic transformation (RASET)

Balance unspent at beginning of year	-	3 000 000	-	-
Current-year receipts	500 000	-	-	-
Conditions met - transferred to revenue	-	(3 000 000)	-	-
	500 000	-	-	-

Conditions still to be met - remain liabilities (see note 17).

The purpose of the grant is to provide fresh fruit, vegetables and maas to the schools in Harry Gwala District.

#### Department of higher education and training grant

Balance unspent at beginning of year	11 243 306	7 960 998	-	-
Correction of prior period errors	-	2 787 476	-	-
Repayment of unspent portion	(8 201 504)	-	-	-
Bank Charges	(8 500)	-	-	-
Interest received	177 177	494 832	-	-
	3 210 479	11 243 306	-	-

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is provide funding through National Skills Fund for the capacitation of the youth with skills.

#### Development Bank of South Africa

Balance unspent at beginning of year	1 054 061	1 054 061	-	-
--------------------------------------	-----------	-----------	---	---

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to capacitate co-operatives through jobs fund projects.

#### Expanded public works programme

Current-year receipts	5 316 000	2 518 000	5 316 000	2 518 000
Conditions met - transferred to revenue	(5 316 000)	(2 518 000)	(5 316 000)	(2 518 000)
	-	-	-	-

Conditions still to be met - remain liabilities (see note 17).

Expanded public works programme grant is used to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas. The current year receipt was used to fund expenditure during the current year and thus accordingly recognised as revenue.

#### Public transport grant

Balance unspent at beginning of year	-	66 587	-	66 587
Adjustment	-	(66 587)	-	(66 587)
	-	-	-	-

#### Rural roads asset management system grant

Balance unspent at beginning of year	-	4 351	-	4 351
Current-year receipts	2 358 000	2 226 000	2 358 000	2 226 000
Conditions met - transferred to revenue	(2 358 000)	(2 226 000)	(2 358 000)	(2 226 000)
Repayment of unspent portion	-	(4 351)	-	(4 351)
	-	-	-	-

Conditions still to be met - remain liabilities (see note 17).

#### Development planning shared services grant

Balance unspent at beginning of year	818 472	1 164 043	818 472	1 164 043
Conditions met - transferred to revenue	(331 991)	(345 571)	(331 991)	(345 571)
	<b>486 481</b>	<b>818 472</b>	<b>486 481</b>	<b>818 472</b>

Conditions still to be met - remain liabilities (see note 17).

The grant received from COGTA is to be utilised in developing shared municipal services.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019
<b>23. Government grants and subsidies (continued)</b>				
<b>Sihleza maize production project grant</b>				
Balance unspent at beginning of year	242 413	242 413	242 413	242 413
Repayment of unspent portion	(242 413)	-	(242 413)	-
	-	<b>242 413</b>	-	<b>242 413</b>
Conditions still to be met - remain liabilities (see note 17).				
<b>Signage grant</b>				
Balance unspent at beginning of year	98 112	98 112	98 112	98 112
Repayment of unspent portion	(98 112)	-	(98 112)	-
	-	<b>98 112</b>	-	<b>98 112</b>
Conditions still to be met - remain liabilities (see note 17).				
<b>Government Experts Grant</b>				
Balance unspent at beginning of year	-	445 014	-	445 014
Conditions met - transferred to revenue	-	(445 014)	-	(445 014)
	-	-	-	-
<b>Gijima Grant</b>				
Balance unspent at beginning of year	-	235 810	-	235 810
Conditions met - transferred to revenue prior period error	-	(235 810)	-	(235 810)
	-	-	-	-
<b>Energy efficiency demand side management grant</b>				
Current-year receipts	7 000 000	-	7 000 000	-
Conditions met - transferred to revenue	(7 000 000)	-	(7 000 000)	-
	-	-	-	-
<b>Cogta accelerated water intervention grant</b>				
Current-year receipts	15 000 000	-	15 000 000	-
Conditions still to be met - remain liabilities (see note 17).				
<b>Disaster management grant</b>				
Current-year receipts	596 000	-	596 000	-
Conditions met - transferred to revenue	(596 000)	-	(596 000)	-
	-	-	-	-
<b>24. Public contributions and donations</b>				
Assets received from other organs of state	5 863 241	13 424 405	5 863 241	13 424 405



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 25. Revenue

Sale of fresh produce to schools	-	5 052 115	-	-
Service charges	70 462 645	58 420 643	70 462 645	58 420 643
Other income	1 353 425	784 865	1 353 425	743 465
Interest received	18 987 942	19 965 337	18 828 904	19 757 937
Government grants & subsidies	643 187 263	661 444 867	643 187 263	658 444 867
Public contributions and donations	5 863 241	13 424 405	5 863 241	13 424 405
	<b>739 854 516</b>	<b>759 092 232</b>	<b>739 695 478</b>	<b>750 791 317</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Sale of fresh produce to schools	-	5 052 115	-	-
Service charges	70 462 645	58 420 643	70 462 645	58 420 643
Other income	1 353 425	784 865	1 353 425	743 465
Interest received	18 987 942	19 965 337	18 828 904	19 757 937
	<b>90 804 012</b>	<b>84 222 960</b>	<b>90 644 974</b>	<b>78 922 045</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

##### Transfer revenue

Government grants & subsidies	643 187 263	661 444 867	643 187 263	658 444 867
Public contributions and donations	5 863 241	13 424 405	5 863 241	13 424 405
	<b>649 050 504</b>	<b>674 869 272</b>	<b>649 050 504</b>	<b>671 869 272</b>

### 26. Bulk purchases

Water	22 832 763	17 975 968	22 832 763	17 975 968
-------	------------	------------	------------	------------

### 27. Contracted services

#### Outsourced Services

Administrative and Support Staff	14 273 911	14 988 322	14 273 911	14 988 322
Burial Services	22 426	5 000	22 426	5 000
Business and Advisory	16 928 234	8 489 910	16 928 234	8 489 910
Catering Services	536 450	306 510	536 450	306 510
Cleaning Services	78 030	79 198	78 030	79 198
Security Services	23 327 554	27 066 016	22 691 041	26 557 177
Sewerage Services	4 336 516	611 359	4 336 516	611 359
Water Takers	3 380 763	4 395 681	3 380 763	4 395 681

#### Consultants and Professional Services

Business and Advisory	15 713 034	4 699 697	15 713 034	4 699 697
Legal Cost	5 290 077	5 644 237	4 992 281	5 580 851

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>27. Contracted services (continued)</b>				
<b>Contractors</b>				
Audio-visual Services	5 000	37 000	5 000	37 000
Catering Services	189 950	133 995	189 950	133 995
Electrical	6 086 957	-	6 086 957	-
Employee Wellness	13 226	119 371	13 226	119 371
Event Promoters	5 063 031	6 753 850	5 063 031	6 753 850
Maintenance of Buildings and Facilities	1 702 884	1 236 350	1 662 337	1 166 787
Maintenance of Equipment	11 704 191	16 092	11 704 191	-
Maintenance of Unspecified Assets	6 917 115	10 486 011	6 917 115	10 486 011
Rural roads site supervision and consulting	2 049 565	2 002 874	2 049 565	2 002 874
Sewerage Services	25 624 743	56 308 840	25 624 743	56 308 840
Stage and Sound Crew	-	7 300	-	7 300
	<b>143 243 657</b>	<b>143 387 613</b>	<b>142 268 801</b>	<b>142 729 733</b>
<b>28. Debt impairment</b>				
Debt impairment	43 060 458	19 110 917	43 060 458	19 110 917
<b>29. Depreciation and amortisation</b>				
Property, plant and equipment	71 687 286	67 863 733	70 597 207	66 767 586
Intangible assets	457 165	225 842	321 724	225 842
	<b>72 144 451</b>	<b>68 089 575</b>	<b>70 918 931</b>	<b>66 993 428</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>30. Employee related costs</b>				
Basic	114 935 841	106 663 516	107 829 953	99 979 496
Bonus	8 187 843	7 237 056	7 832 700	6 855 080
Social contributions - medical aid	8 553 594	7 627 523	8 220 132	7 260 577
Unemployment insurance fund	724 857	716 063	671 784	664 327
Leave pay provision charge	3 359 754	2 082 354	3 208 470	1 966 754
Health care retirement benefit	2 136 405	3 165 733	2 136 405	3 165 733
Social contributions - pension fund	17 004 676	15 726 802	15 505 407	14 209 023
Social contribution - SALGBC	39 172	36 721	39 172	36 721
Travel, motor car, accommodation, subsistence and other allowances	19 380 481	17 990 005	19 380 481	17 990 005
Overtime payments	22 042 781	22 214 615	22 042 781	22 214 615
Long-service awards	1 423 488	917 846	1 423 488	917 846
Housing benefits and allowances	487 209	413 229	487 209	413 229
	<b>198 276 101</b>	<b>184 791 463</b>	<b>188 777 982</b>	<b>175 673 406</b>

### Remuneration of municipal manager

Annual Remuneration	924 917	928 379	924 917	928 379
Car Allowance	191 181	160 595	191 181	160 595
Cell phone allowance	19 449	18 091	19 449	18 091
Housing allowance	57 106	54 655	57 106	54 655
Rural allowance	58 901	45 301	58 901	45 301
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to medical aid	53 634	49 793	53 634	49 793
Contributions to SALGBC	111	103	111	103
	<b>1 307 084</b>	<b>1 258 702</b>	<b>1 307 084</b>	<b>1 258 702</b>

### Remuneration of chief finance officer

Annual Remuneration	629 634	622 846	629 634	622 846
Car Allowance	174 720	152 250	174 720	152 250
Cellphone Allowances	19 449	18 091	19 449	18 091
Housing allowance	54 241	46 385	54 241	46 385
Rural allowance	42 933	33 278	42 933	33 278
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to medical aid	35 852	35 762	35 852	35 762
Contributions to SALGBC	111	103	111	103
	<b>958 725</b>	<b>910 500</b>	<b>958 725</b>	<b>910 500</b>

### Remuneration of social services executive director

Annual Remuneration	221 008	737 187	221 008	737 187
Car Allowance	62 400	121 350	62 400	121 350
Rural allowance	14 311	30 419	14 311	30 419
Cell phone allowance	6 483	16 537	6 483	16 537
Contributions to UIF	595	1 636	595	1 636
Contributions to SALGBC	38	95	38	95
	<b>304 835</b>	<b>907 224</b>	<b>304 835</b>	<b>907 224</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 30. Employee related costs (continued)

#### Remuneration of corporate services executive director

Annual Remuneration	695 395	645 686	695 395	645 686
Car Allowance	174 720	175 246	174 720	175 246
Rural allowance	42 933	33 278	42 933	33 278
Cellphone allowances	19 449	18 091	19 449	18 091
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to medical aid	24 332	20 347	24 332	20 347
Contributions to SALGBC	112	103	112	103
	<b>958 726</b>	<b>894 536</b>	<b>958 726</b>	<b>894 536</b>

#### Remuneration of water services executive director

Annual Remuneration	671 479	411 783	671 479	411 783
Car Allowance	174 720	103 936	174 720	103 936
Cellphone allowances	19 449	12 431	19 449	12 431
Housing allowance	48 248	27 997	48 248	27 997
Rural allowance	42 933	21 344	42 933	21 344
Contributions to UIF	1 785	1 190	1 785	1 190
Contributions to SALGBC	112	70	112	70
	<b>958 726</b>	<b>578 751</b>	<b>958 726</b>	<b>578 751</b>

#### Remuneration of infrastructure executive director

Annual Remuneration	749 295	751 096	749 295	751 096
Car Allowance	149 920	144 000	149 920	144 000
Rural allowance	42 933	33 278	42 933	33 278
Cell phone allowance	19 449	7 770	19 449	7 770
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to SALGBC	111	103	111	103
	<b>963 493</b>	<b>938 032</b>	<b>963 493</b>	<b>938 032</b>

#### Remuneration of board members

Directors' fees	249 324	299 126	-	-
Directors' travel	136 453	116 233	-	-
	<b>385 777</b>	<b>415 359</b>	<b>-</b>	<b>-</b>

#### Remuneration of Chief Executive Officer - Harry Gwala Development Agency

Annual Remuneration	1 357 351	1 230 934	-	-
Car Allowance	120 000	110 000	-	-
Contributions to UIF, Medical and Pension Funds	112 586	248 573	-	-
13th Cheque	123 113	57 799	-	-
Acting Allowance	-	183 658	-	-
	<b>1 713 050</b>	<b>1 830 964</b>	<b>-</b>	<b>-</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 30. Employee related costs (continued)

#### Remuneration of chief financial officer - Harry Gwala Development Agency

Annual Remuneration	971 903	905 261	-	-
Car Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	233 622	223 261	-	-
Honorarium	-	12 000	-	-
13th Cheque	90 992	85 438	-	-
Acting Allowance	17 787	118 465	-	-
	<b>1 434 304</b>	<b>1 464 425</b>	-	-

### 31. Finance costs

External borrowings and finance leases	4 283 737	3 752 248	4 283 737	3 752 248
Bank	13 063	12 952	-	-
	<b>4 296 800</b>	<b>3 765 200</b>	<b>4 283 737</b>	<b>3 752 248</b>

### 32. Inventory consumed

Consumables:Standard Rated	84 623	204 339	84 623	204 339
Consumables:Zero Rated	4 661 542	5 212 988	4 661 542	5 212 988
Materials and supplies	653 559	25 588 572	653 559	25 588 572
	<b>5 399 724</b>	<b>31 005 899</b>	<b>5 399 724</b>	<b>31 005 899</b>

### 33. Lease rentals on operating lease

#### Equipment

Printing machines and car rental	57 613	46 628	-	-
----------------------------------	--------	--------	---	---

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019
<b>34. Operational costs</b>				
Advertising	1 408 166	1 375 087	1 365 500	1 274 879
Auditors remuneration	4 343 697	3 831 689	3 832 960	3 445 612
Bank charges	235 961	226 368	225 333	208 675
Cleaning	14 611	5 943	-	-
Computer expenses	18 042	22 007	-	-
Program expenses - Farm produce	2 695 418	5 340 897	-	-
Fines and penalties	112 963	21 960	-	-
Hire	-	139 488	-	111 525
Insurance	1 023 366	499 877	858 086	366 630
Conferences and seminars	92 405	77 468	-	-
Financial system support	162 933	334 885	-	-
Vehicle expenses	2 538 920	6 513 301	2 538 920	6 513 301
Promotions and sponsorships	-	42 880	-	-
Motor vehicle licence and registrations	198 918	2 073 481	198 918	2 073 481
Fuel and oil	7 019 529	5 914 728	7 007 735	5 871 389
Printing and stationery	788 962	1 010 358	777 203	937 277
Protective clothing	4 289 624	1 349 998	4 289 624	1 326 915
Software expenses	3 598 489	2 046 865	3 598 489	2 046 865
Staff welfare	577 515	510 924	575 506	507 570
Subscriptions and membership fees	385 452	80 376	385 452	63 128
Telephone and fax	4 809 356	3 249 755	4 598 847	3 005 426
Transport	246 539	2 993 333	236 739	382 689
Training	74 679	-	-	-
Travel and accommodation	3 716 671	5 055 418	3 309 732	4 532 004
Refuse	-	5 326	-	-
Electricity	16 839 462	13 186 182	16 839 462	13 186 182
Tourism development	437 183	799 466	-	-
Event registration fees	163 003	-	83 003	-
Rental of offices	1 670 216	2 630 217	1 670 216	2 630 217
Hygiene services	243 102	-	243 102	-
Skills development levy	1 397 560	1 550 673	1 331 764	1 474 818
Support to small farmers	69 459	6 640	63 349	-
Signage	22 500	45 500	22 500	45 500
Enterprise development expenses	317 190	21 215	-	-
SALGA fees	1 797 800	-	1 797 800	-
	<b>61 309 691</b>	<b>60 962 305</b>	<b>55 850 240</b>	<b>50 004 083</b>

## 35. Remuneration of councillors

Executive Major	553 990	799 680	553 990	799 680
Deputy Executive Mayor	785 369	729 627	785 369	729 627
Mayoral Committee Members	1 146 929	1 461 120	1 146 929	1 461 120
Speaker	758 170	728 375	758 170	728 375
Councillors	3 269 278	2 363 256	3 269 278	2 363 256
Meeting allowance	495 618	165 749	495 618	165 749
Travelling allowance	692 499	704 617	692 499	704 617
	<b>7 701 853</b>	<b>6 952 424</b>	<b>7 701 853</b>	<b>6 952 424</b>

## 36. Transfer payments

Harry Gwala Development Agency	-	-	14 000 000	14 000 000
--------------------------------	---	---	------------	------------

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>37. Impairment of assets</b>				
<b>Impairments</b>				
Property, plant and equipment	1 025 548	2 750 050	1 025 548	2 750 050
<b>38. Auditors' remuneration</b>				
Fees	4 343 697	3 831 689	3 832 960	3 445 612
<b>39. Cash generated from operations</b>				
Surplus	176 788 172	212 869 398	180 299 395	212 873 728
<b>Adjustments for:</b>				
Depreciation and amortisation	72 144 451	68 089 575	70 918 931	66 993 428
Loss on disposal of assets	1 708 544	8 948 027	1 652 682	8 948 027
Impairment deficit	1 025 548	2 750 050	1 025 548	2 750 050
Debt impairment	43 060 458	19 110 917	43 060 458	19 110 917
Movements in retirement benefit assets and liabilities	(461 213)	(4 009 117)	(461 213)	(4 009 117)
Assets received from other organs of state	(5 863 241)	(13 424 404)	(5 863 241)	(13 424 404)
Other non-cash items	7 653	-	7 651	1
<b>Changes in working capital:</b>				
Inventories	(19 303)	(77 125)	(19 303)	(77 125)
Receivables from exchange transactions	5 052 115	(3 827 411)	-	-
Consumer debtors	(47 155 828)	(24 129 150)	(47 155 828)	(24 129 150)
Other receivables from non-exchange transactions	2 779 776	(1 633 280)	2 779 776	(1 633 280)
Payables from exchange transactions	4 571 004	(48 034 705)	5 028 070	(48 111 882)
VAT	4 933 415	25 848 365	4 388 571	26 351 899
Unspent conditional grants and receipts	(36 443 230)	(15 282 367)	(28 910 403)	(16 618 736)
Consumer deposits	95 239	162 407	95 239	162 407
	<b>222 223 560</b>	<b>227 361 180</b>	<b>226 846 333</b>	<b>229 186 763</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>40. Commitments</b>				
<b>Authorised capital expenditure</b>				
<b>Already contracted for but not provided for</b>				
• Infrastructure	464 077 447	419 802 093	464 077 447	419 802 093
<b>Total capital commitments</b>				
Already contracted for but not provided for	464 077 447	419 802 093	464 077 447	419 802 093
<b>Authorised operational expenditure</b>				
<b>Already contracted for but not provided for</b>				
• Current expenditure	30 800	394 865	-	-
• Material supply	-	10 383 062	-	10 383 062
• Coordination for Harry Gwala Sport Development Programmes and Cultural	3 350 189	6 924 850	3 350 189	6 924 850
	<b>3 380 989</b>	<b>17 702 777</b>	<b>3 350 189</b>	<b>17 307 912</b>
<b>Total operational commitments</b>				
Already contracted for but not provided for	3 380 989	17 702 777	3 350 189	17 307 912
<b>Total commitments</b>				
<b>Total commitments</b>				
Authorised capital expenditure	464 077 447	419 802 093	464 077 447	419 802 093
Authorised operational expenditure	3 380 989	17 702 777	3 350 189	17 307 912
	<b>467 458 436</b>	<b>437 504 870</b>	<b>467 427 636</b>	<b>437 110 005</b>
<b>Operating leases - as lessee (expense)</b>				
<b>Minimum lease payments due</b>				
- within one year	13 919	46 628	-	-
- in second to fifth year inclusive	43 694	-	-	-
	<b>57 613</b>	<b>46 628</b>	<b>-</b>	<b>-</b>



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019
<b>41. Contingencies</b>				
<b>Contingent liabilities</b>				
Sifiso Gregory Mkize	21 295	21 295	21 295	21 295
Mdlebeni Trading (Pty) Ltd	1 604 000	1 604 000	1 604 000	1 604 000
Unitrade 1047 CC T/A Isidingo Security Services	26 000 000	26 000 000	26 000 000	26 000 000
Unlawful arrest and detention	710 000	710 000	710 000	710 000
Matatiele Local Municipality	2 941 249	2 941 249	2 941 249	2 941 249
National Skills Fund	4 033 555	2 959 073	-	-
	<b>35 310 099</b>	<b>34 235 617</b>	<b>31 276 544</b>	<b>31 276 544</b>

### Sifiso Gregory Mkize

This is a claim for damages against the Municipality. A summons was issued out of the Magistrates Court and was defended by the Municipality. The Plaintiff has taken no further steps in the matter to prosecute the claim and the matter is still pending awaiting a set down for trial.

### Mdlebeni Trading (Pty) Ltd

This is a claim against the Municipality for services rendered. A summon was issued out of the Pietermaritzburg High Court and the matter was defended by the Municipality. The municipality is the process of arranging a pre-trial conference, whereafter, the matter will set down for trial.

### Unitrade 1047 CC T/A Isidingo Security Services

This is a claim for damages arising from an alleged breach of contract against the Municipality in relation to a tender award. A summons was issued out of the High Court, Durban Local Division and the matter is currently pending in the Durban High Court awaiting a set down for trial. The matter was defended by the Municipality.

### Unlawful arrest and detention

This is a claim for damages against the Municipality. A summons was issued out of the Pietermaritzburg High Court and the matter was defended by the Municipality. A Plea has been filed on the Municipality's behalf and the matter is currently pending awaiting a set down for trial.

### Matatiele Local Municipality

Harry Gwala District Municipality is disputing the amount raised as a debtor by Matatiele Local Municipality. An agreement is yet to be reached between the two municipalities.

### National Skills Fund

The liability might arise as a result of a current investigation against Harry Gwala Development Agency the outcome of which will determine if there are any service providers that need to be paid.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 42. Related parties

#### Relationships

Controlling entity

Harry Gwala District Municipality

Controlled entities

Refer to note 11

#### Related party transactions

##### Transfer payments

Harry Gwala Development Agency (Pty) Ltd

14 000 000

14 000 000

#### Remuneration of management

##### Management class: Board members

\*Refer to note "Employee related costs"

##### Management class: Councillors

Refer to note "Remuneration of councillors"

##### Management class: Executive management

\*Refer to note "Employee related costs"

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019

### 43. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Statement of financial position

2018

#### Controlling entity - 2019

	Note	As previously reported	Correction of error	Re - Estimation of useful life	Re-classification	Restated
Accumulated Surplus		(2 091 685 449)	(4 568 550)	(7 512 282)	-	(2 103 766 281)
Receivables from exchange transactions	4	1 139	5 050 976	-	-	5 052 115
Receivable from non exchangetransactions	5	6 057 815	-	-	600 682	6 658 497
VAT Receivable	6	11 353 743	344 389	-	-	11 698 132
Cash and cash equivalents	8	71 592 765	(5 956)	-	-	71 586 809
Infrastructure	9	2 106 947 739	(3 372 695)	7 346 781	-	2 110 921 825
Machinery and equipment	9	559 409	-	7 800	-	567 209
Furniture and office equipment	9	1 597 152	-	48 660	-	1 645 812
Computer equipment	9	3 500 124	-	60 113	-	3 560 237
Infrastructure: information andcommunication	9	326 253	-	3 600	-	329 853
Computer software	10	1 530 636	859 208	45 328	-	2 435 172
Trade payables	14	(28 594 565)	(1 267 636)	-	-	(29 862 201)
Retentions	14	(51 387 878)	9 147 283	-	-	(42 240 595)
Other payables	14	(1 082 634)	1 683 082	-	(600 682)	(234)
Accrued fuel	14	-	(1 139)	-	-	(1 139)
Unspent conditional grants and receipts	17	(54 142 586)	(2 551 665)	-	-	(56 694 251)
Other financial liabilities		-	(5 317 297)	-	-	(5 317 297)
		<b>(23 426 337)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23 426 337)</b>

#### Statement of financial performance

#### Controlling entity - 2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Sale of goods		-	5 052 115	-	5 052 115
Contracted services	27	(142 072 245)	(1 358 217)	42 850	(143 387 612)
Depreciation and amortisation	29	(68 346 321)	256 746	-	(68 089 575)
Operational costs	34	(57 180 545)	(3 738 908)	(42 850)	(60 962 303)
<b>(deficit) Surplus for the year</b>		<b>(267 599 111)</b>	<b>211 736</b>	<b>-</b>	<b>(267 387 375)</b>

#### Errors

The following prior period errors adjustments occurred:

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 43. Prior-year adjustments (continued)

#### Retentions

During the 2019/2020 financial year the municipality engaged an exercise to check the validity of the obligations attached to long outstanding retentions. It was noted that there were certain retentions withheld which were no longer claimable for various reasons including amongst others surrender by the contractor due to non performance, breach of contract and retentions incorrectly held on small emerging contractors. The municipality therefore decided to write off these amounts as they were no longer payable resulting in the decrease in retentions payable and work in progress by R9 147 283 and R3 372 695 respectively and a corresponding increase in accumulated surplus by R3 774 588.

#### Trade and other payables from exchange transactions

The municipality received certain invoices late relating to the work performed during the 2018/2019 financial. These invoices were accounted for after the finalisation of the audit resulting in the restatement of opening balances. The accounting of these invoices resulted in the following changes; Increase in contracted services, VAT receivable and Trade payables by R2 732 586, R409 888 and R3 142 474 respectively.

Certain prior year invoices accrued at year end during the 2018/2019 financial year were cancelled. This resulted in the decrease of contracted services, operational costs, VAT receivable and trade payables by R1 439 189, R436 661, R65 499 and R1 941 350 respectively.

Deductions from employees reimbursing the municipality for payments made by the municipality on behalf of the employees for their personal cellphone contracts were incorrectly credited to the suspense accounts. These amounts were reallocated during the 2019/20 financial year resulting in the decrease of other payables R1 144 557 and operational costs by the same amount.

Refunds from medical aid and other third parties were erroneously accounted for in suspense accounts. These amounts were reallocated during the 2019/2020 financial year resulting in the decrease of other payables by R538 524 and an increase in accumulated surplus by the same amount.

Transactions relating to security, legal, union fees, interest and penalties were erroneously omitted from the books Harry Gwala Development Agency. The omission resulted in the understatement of payables from exchange transactions, operational costs and contracted services by R66 511, R2 830 and R64 820 respectively.

#### Reestimation of useful life of property plant and equipment

During the current financial the municipality identified assets fully depreciated but still in use. The useful life of these assets was reestimated resulting in correction of the prior years depreciation. The change in useful life resulted in the following adjustments to accumulated depreciation; machinery and equipment R7 800, furniture and office equipment R48 660; Infrastructure: information and communication R3 600, computer equipment R60 113, Infrastructure assets R7 346 781 and Computer software R45 328.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019

### 43. Prior-year adjustments (continued)

#### Unspent conditional grants and receipts

The municipality continued with its effort to clear old outstanding unspent conditional grants and receipts during the financial year. Efforts to get confirmation of the outstanding balance for the Gijima grant from the transferring department were fruitless as there were no records showing any amount owed by Harry Gwala District Municipality. The management therefore took a decision to write off the amount of R235 810 as it became clear that there were no obligations attached to the amount.

The Harry Gwala Development Agency corrected the amount reflected as unspent for the Department of Higher Education and Training Grant to ensure that the unspent portion agrees to the amount reflected on the bank account. This adjustment resulted in an increase in unspent conditional grants and receipts by R2 787 475 and a corresponding decrease in accumulated surplus.

#### Other financial liabilities and receivable from exchange transactions

During the 2018/2019 financial year the Harry Gwala Development Agency (HGDA) entered into an agreement to supply fresh fruits and vegetables to KZN schools as part of the activities undertaken on the funds received for RASET grant. HGDA also entered into another agreement with Ithala Development Finance Corporation, the agreement was that Ithala would pay the farmers when they supply their produce and recover its money once the KZN Department of Education pays the Agency for the supplies.

The transactions relating to the above two agreements occurred during the 2018/2019 financial year but was never recorded in the accounting records. The omission resulted in the understatement of revenue from sale of goods by R5 052 115 and corresponding understatement of receivable from exchange transactions; understatement of RASET programme expenditure by R5 317 297 and a corresponding understatement of other financial liabilities.

### 44. Comparative figures

Certain comparative figures have been reclassified.

### 45. Risk management

#### Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### Liquidity risk

The economic entity's risk to liquidity is a result of the funds available to cover future commitments. The economic entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	Economic entity - 2020	Economic entity - 2019	Controlling entity - 2020	Controlling entity - 2019
Cash and cash equivalents	48 731 048	71 586 809	40 670 866	58 362 814
Trade and other receivables	34 907 458	38 643 979	34 907 458	33 591 864

#### Market risk

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 45. Risk management (continued)

#### Interest rate risk

As the economic entity has no significant interest-bearing assets, the economic entity's income and operating cash flows are substantially independent of changes in market interest rates.

The economic entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the economic entity to fair value interest rate risk.

### 46. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 47. Events after the reporting date

Harry Gwala Municipality Council set on 22 October 2020 to resolve the unauthorised, irregular, fruitless and wasteful (UIFW) expenditure. Investigations were performed by MPAC with help of the appointed service providers and council took a resolution to write off the UIFW. The write off resulted in the decrease of Unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure by R476 372 363, R598 531 266 and R4 037 469 respectively.

RASET Grant amounting to R500 000 was fully spent in July 2020.

### 48. Unauthorised expenditure

Opening balance as previously reported	476 372 363	413 807 042	476 372 363	413 807 042
<b>Opening balance as restated</b>	<b>476 372 363</b>	<b>413 807 042</b>	<b>476 372 363</b>	<b>413 807 042</b>
Add: Current Expenditure	-	62 565 321	-	62 565 321
Less: Amount Approved by council	(476 372 363)	-	(476 372 363)	-
<b>Closing balance</b>	<b>-</b>	<b>476 372 363</b>	<b>-</b>	<b>476 372 363</b>

### 49. Fruitless and wasteful expenditure

Opening balance as previously reported	4 523 565	4 431 553	4 037 469	3 967 385
<b>Opening balance as restated</b>	<b>4 523 565</b>	<b>4 431 553</b>	<b>4 037 469</b>	<b>3 967 385</b>
Add: current expenditure	2 319 003	92 012	2 206 040	70 084
Less: Amount written off - prior period	(4 037 469)	-	(4 037 469)	-
<b>Closing balance</b>	<b>2 805 099</b>	<b>4 523 565</b>	<b>2 206 040</b>	<b>4 037 469</b>

### 50. Irregular expenditure

Opening balance as previously reported	627 156 698	486 059 620	598 531 266	460 044 832
<b>Opening balance as restated</b>	<b>627 156 698</b>	<b>486 059 620</b>	<b>598 531 266</b>	<b>460 044 832</b>
Add: Irregular Expenditure - current year	62 093 966	141 097 078	62 093 966	138 486 434
Less: Amount written off - prior period	(598 531 266)	-	(598 531 266)	-
<b>Closing balance</b>	<b>90 719 398</b>	<b>627 156 698</b>	<b>62 093 966</b>	<b>598 531 266</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019
<b>51. In-kind donations and assistance</b>				
2 x 7 Ton Isuzu Refrigerated Truck	-	2 400 000	-	-
1 x 7 Ton Isuzu Meshed Wired	-	1 100 000	-	-
2 x 1 Ton Toyota 4x4 Hilux	-	900 000	-	-
	-	<b>4 400 000</b>	-	-

In June 2019, the Harry Gwala Development Agency received goods in kind from the Department of Economic Development, Tourism and Environmental Affairs for use in RASET Program. Goods received were three (3) trucks, two (2) bakkies and two (2) trailers.

## 52. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

Current year subscription / fee	1 797 800	1 730 870	1 797 800	1 730 870
Amount paid - current year	(1 797 800)	(1 730 870)	(1 797 800)	(1 730 870)
	-	-	-	-

### Material losses

Water losses	9 554 273	9 015 759	9 554 273	9 015 759
--------------	-----------	-----------	-----------	-----------

The water losses of 31.2% (2018/19 : 31.9 %) is calculated on the system input volume of 4 337 016kl (2018/19 : 4 004 130kl) purchased at an average price of R7.05 (2018/19 : R7.05 ) per kl and total units sold amounting to 2 981 800kl (2018/19 : 2 725 299kl). Total water stock losses amounts to 1 355 216 kl (2018/19 : 1 278 831kl)

The following are the major root causes for the water losses:

- High increase in water carting due to draught, water being delivered by water carters is deemed as water losses.
- Ageing infrastructure around the District also causes water losses, there are still AC and asbestos pipes that are under ground and they keep bursting most of the times.
- Informal settlements around the District that have water connections but they are not billed therefore they are deemed as water losses.
- Illegal connections especially in rural areas and informal settlements

### Audit fees

Opening balance	11 942	-	11 942	-
Current year subscription / fee	4 343 697	3 831 689	3 832 960	3 445 612
Amount paid - current year	(4 343 697)	(3 819 747)	(3 832 960)	(3 433 670)
Amount paid - previous years	(11 942)	-	(11 942)	-
	-	<b>11 942</b>	-	<b>11 942</b>

### PAYE and UIF

Opening balance	2 143 105	2 518 275	2 143 105	2 350 739
Current year subscription / fee	34 531 760	31 452 561	32 654 420	29 719 621
Amount paid - current year	(34 531 760)	(29 309 456)	(32 654 420)	(27 576 516)
Amount paid - previous years	(2 143 105)	(2 518 275)	(2 143 105)	(2 350 739)
	-	<b>2 143 105</b>	-	<b>2 143 105</b>

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 52. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and Medical Aid Deductions

Opening balance	2 974 751	3 076 669	2 974 751	3 076 669
Current year subscription / fee	26 201 461	35 917 711	24 368 730	34 399 932
Amount paid - current year	(26 201 461)	(32 942 960)	(24 368 730)	(31 425 181)
Amount paid - previous years	(2 974 751)	(3 076 669)	(2 974 751)	(3 076 669)
	-	<b>2 974 751</b>	-	<b>2 974 751</b>



# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019

### 53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

#### The expenses incurred as listed hereunder have been approved:

SABC Vuka Sizwe	104 420	-	104 420	-
Mayoral radio slots in Ukhozi FM from August 2019 to January 2020.				
John Diliika Construction	1 200 000	-	1 200 000	-
Emergency emptying of 600 VIP toilets in Horseshoe LGS Projects	1 200 000	-	1 200 000	-
Emergency emptying of 600 VIP toilets in Horseshoe Shemuntu and Sons	600 000	-	600 000	-
Emergency emptying of 300 VIP toilets in Horseshoe SSR Security T/A Mahlubi Transport and plant hire	16 537 868	-	16 537 868	-
Emergency construction of rising main from Pumpstation to Water Treatment Works at Underberg as there was no water for a period of a month in Underberg and Himville				
Nhlanhla Trading	91 250	-	91 250	-
Supply and delivery of latex gloves, masks and sanitizers for COVID-19 pandemic				
Nhlanhla Trading	72 750	-	72 750	-
Procurement of protective gear for the COVID-19 pandemic.				
KRN Investments	961 912	-	961 912	-
Procurement of protective gear for the COVID-19 pandemic.				
Mandanci Construction	409 219	-	409 219	-
Procurement of protective gear for the COVID-19 pandemic.				
SSR Security T/A Mahlubi Transport and plant hire	250 470	-	250 470	-
Supply and delivery of water in uMzimkhulu satellite during COVID-19 pandemic.				
Shemuntu and Sons	180 000	-	180 000	-
Supply and delivery of water in Dr Nkosazana Dlamini zuma satellite during COVID-19 pandemic				
FYNN Construction	242 880	-	242 880	-
Supply and delivery of water in Ubuhlebezwe satellite during COVID-19 pandemic.				
Shemuntu and Sons	21 200	-	21 200	-
Emergency high-pressure sewer jetting in Fairview Ixopo satellite.				
Shemuntu and Sons	53 000	-	53 000	-
Emergency high-pressure sewer jetting in uMzimkhulu satellite.				
Radio Igagasi 99.5	57 500	-	57 500	-
Mayoral radio slot on Igagasi Fm delivering municipal budget and IDP as no gatherings were allowed during COVI-19 lockdown				

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2020	2019	2020	2019
<b>53. Deviation from supply chain management regulations (continued)</b>				
KZN FM 99.3	30 000	-	30 000	-
Mayoral radio slot on KZN FM 93,3 delivering municipal budget and IDP as no gatherings were allowed during COVID-19 lockdown				
KZN FM 99.3	30 000	-	30 000	-
Mayoral radio slot on KZN FM 93,3 delivering municipal adjustment budget and municipal service delivery issues as no gatherings are allowed during COVID-19				
FYNN Construction	32 200	-	32 200	-
12-ton truck to deliver water around Ubuhlebezwe schools before they reopened during COVID-19.				
Fegsa projects and con	98 500	-	98 500	-
12-ton truck to deliver water around uMzimkhulu schools before they reopened during COVID-19.				
Cha Luke Trading	248 500	-	248 500	-
12-ton truck to deliver water around uMzimkhulu schools before they reopened during COVID-19.				
Njane Trading	73 900	-	73 900	-
Emergency spring protection in Emadungeni				
Emadungeni multipurpose co-op	78 750	-	78 750	-
Emergency spring protection in Emadwaleni				
Thando's catering (pty) ltd	49 600	-	49 600	-
Emergency spring protection in Nkalokazi Madungeni				
HGDA deviations	82 823	-	-	-
Emergency procurement of goods and services as well as sole providers of goods and services.				
	<b>22 706 742</b>	<b>-</b>	<b>22 623 919</b>	<b>-</b>

### 54. Covid-19 impact on financial operations

On 15 March 2020, the President of South Africa, in a national address, announced the declaration of the Covid-19 (also known as the Coronavirus) pandemic as a "national disaster". Significant consequential announcements have been made, relating to restrictions on movement, business activity, travel and other matters, all in the interests of preventing an escalation of the national disaster and alleviating, containing and minimising the effects of the national disaster. These announcements had an impact on Harry Gwala District Municipality including amongst others:

- Decrease in the collection rate on consumers debtors. The payment patterns of consumers were considered when the impairment assessment of debtors was performed.
- Increase in the number of supply chain management deviations resulting from the urgent need to supply water to communities and as well schools through water tankers.

On 5 August 2020 National Treasury issued a MFMA exemption notice extending the annual financial statements submission date by 2 months. The annual financial statements were therefore submitted to the Auditor General on 30 October 2020.

# Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2020	2019	2020	2019

### 55. Budget differences

#### Material differences between budget and actual amounts

**Service Charges** - The actual is more than the budgeted amount due to an increase in consumption due to new connections and replacement of faulty meters.

**Other Income** - The actual is more than the budgeted amount due to staff recoveries received which were not budgeted for.

**Interest on outstanding debtors** - The actual outcome is higher than budgeted due to non payment of services by consumers resulting in a higher balance of consumer debtors

**Government Grants and Subsidies** - The actual outcome is lower than anticipated as a result of failure to spend the cogta accelerated water intervention grant. The grant was received late and the conditions of spending were not yet met at year end.

**Employee related costs** - The variance is within acceptable limits. The underspending was mainly due to vacant posts that were prioritised but not filled during the 2019/2020 financial year.

**Remuneration of Councillors** - The variance is within acceptable limits.

**Debt Impairment** - The budget for non-cash items was understated during the budgeting process due to management anticipating an improved collection rate however due to COVID 19 the collection rate decreased significantly. This resulted in the higher actual outcome than budgeted for.

**Depreciation and Impairment loss** - The variance is as of under budgeting for depreciation as the value of the assets to be transferred from the work in progress was not clear. In addition there was no budget allocated for impairment loss.

**Finance Charges** - The variance is mainly due to the interest incurred on the court case involving the municipality and Bhungane. The municipality lost the case and was ordered to pay the outstanding amount including interest.

**Bulk Purchases** - The variance is within acceptable limits.

**Contracted services** - The municipality is continuously identifying cost drivers to try and minimise expenditure so that the municipality moves towards achieving the goal of eliminating the unfunded budget. The municipality therefore reduced expenditure on activities like security, catering and outsourced administrative and support stuff. Training and travel commitments did not take place as planned because of COVID 19..

**Inventory Consumed** - The variance is within acceptable limits.

**Operational Costs** - The variance is within acceptable limits.

**Actuarial gains and loss** - These no cash items were not budgeted for as it is difficult to estimate without the help of actuarial scientists.

**Gains/ losses on disposal of assets** - There was no budgeted allocated for gains or losses on disposal of assets.